EXHIBIT 1

(Filed under seal)

EXHIBIT 2

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

MYLA NAUMAN, JANE ROLLER, and MICHAEL LOUGHERY,)
Plaintiffs,)
vs.) No. 04 C 7199
ABBOTT LABORATORIES and HOSPIRA, INC.,) Judge Gettleman
Defendants.)

The deposition of GRICE WILLIAMS, taken pursuant to notice and the Federal Rules of Civil Procedure for the United States District Courts, reported by Susan Soble, Certified Shorthand Reporter and Notary Public within and for the County of Cook and State of Illinois, at 35 West Wacker Drive, Suite 47E, Chicago, Illinois, on Thursday, January 11, 2007, at the hour of 10:10 a.m.

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APPEARANCES:
SPRENGER & LANG, PLLC, by:
MR. MARK A. AMADEO
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Washington, D.C. 20005
(202) 265-8010
-and-
MEITES, MULDER, MOLLICA & GLINK, by:
MS. JAMIE S. FRANKLIN
20 South Clark Street - 1500
Chicago, Illinois 60604
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appeared on behalf of the Plaintiffs;

WINSTON & STRAWN, LLP, by:
MR. JOSEPH J. TORRES
35 West Wacker Drive
Chicago, Illinois 60601-9703
(312) 558-5600

appeared on behalf of Defendant Abbott Laboratories;

JENNER & BLOCK, LLP, by:
MR. CHRISTOPHER D. LIGUORI
One IBM Plaza
Chicago, Illinois 60611-7603
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appeared on behalf of Defendant Hospira, Inc.

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INDEX OF EXAMINATIONS

INDEX OF EXHIBITS

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(Witness sworn.)
GRICE WILLIAMS
having been first duly sworn, was examined and testified as follows:
DIRECT EXAMINATION
BY MR. AMADEO:
Q Good mornings, Mr. Williams. My name is Mark Amadeo and I represent the plaintiffs in the matter of Nauman versus Abbott Laboratories and I'll be asking you questions today. If you don't understand a question, let me know and I'll try to rephrase it.
When you give a response to a yes and no question, I'd ask that you answer yes or no instead of nodding or saying uh-huh or unh-unh 'cause those answers obviously don't get picked up well on a transcript.
If you need to take a break, let me know and I will try to accommodate you. If we're in the middle of a question, I'm going to ask that you finish answering the question before we take a break.
Do you understand that you'll be giving testimony under oath today?
A Yes.
Q And do you understand that if you don't answer truthfully to my questions, you can subject yourself to the

penalties of perjury?
A Yes.
Q Do you understand that those penalties would apply if you answer that you don't remember the answer to a question when in fact you do remember?
A First I've heard of that, but yes.
Q And do you understand that the penalties apply if you answer that you can't remember the answer to a question when in fact you do remember the answer to a question?
A Yes.
Q Are you taking any medication that impairs your memory?
A No.
Q Do you have a medical condition that impairs your memory?
A No.
Q Any reason why you won't be answering truthfully to the questions that I ask today?
A No.
Q Are you a college graduate?
A Yes.
Q Which college did you graduate from?
A Lincoln University, Jefferson City, Missouri.
Q And when did you graduate from Lincoln University?

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items related to the transition, not just benefits.
BY MR. AMADEO:
Q The attachments that are e-mailed, that are included in this e-mail, what are they just generally? Are these...
MR. TORRES: Objection.
BY MR. AMADEO:
Q If you can answer.
MR. TORRES: Objection to the form of the question, it's vague. It's also compound.
Go ahead and answer if you can.
THE WITNESS: These are questions that came from employees that are about any number of things related to their situations and questions about transition. As I glance through these, these appear to be all retirement related. But I haven't read each one of these. I just glanced at them. But they appear to be from different employees.
BY MR. AMADEO:
Q And these attachments, are they, how would these employees submit their questions? Would they e-mail them?
MR. TORRES: Objection, foundation.
Go ahead and answer if you can.
THE WITNESS: Mm-hm, yeah. That's what this was.

This was an e-mail that went into this mailbox.
MR. AMADEO: Okay.
THE WITNESS: That was the question and they basically sorted out what is this question, do I know the answer to this question or should I refer it to someone else. And remember, they were on more than just benefit items so this person was directing them to wherever they thought they might get a response.
BY MR. AMADEO:
Q And that person you're referring to, is that Tareta who was directing the questions to you, is that correct?
A Right.
Q Do you know if there was a manager who oversaw this process of collecting questions from the mailbox and then directing them to you or others?
MR. TORRES: Objection, foundation.
Go ahead and answer if you can.
THE WITNESS: No, I do not know. I never had any interaction with a manager.
BY MR. AMADEO:
Q If you wouldn't mind turning to A021246, you see that? It's a question I believe that was submitted by Judy Davis.

Do you see that?
A Mm-hm.
Q This is a question and I'll paraphrase it, about whether Ms. Davis's pension benefits will be the same if she retires from the new company in 2008 compared to if she retired from Abbott in 2008.
Do you recall whether you answered her question?
A No, I do not. I do not recall. That's what I meant to say.
Q You received questions from other employees asking about their pension benefits at the new company, right?
A Correct.
Q I mean there were several, is that right?
A Correct.
Q And is it fair to say that employees were concerned about what their benefits would be at the new company?
MR. TORRES: Objection. It calls for speculation as to what other people felt.
Go ahead and answer if you can.
THE WITNESS: We did get a number of questions on retirement benefits and what would happen with retirement benefits and what Hospira might do with their retirement

program, okay? So concern, questions, certainly.
BY MR. AMADEO:
Q And, in fact, Ms. Tareta said to you, in her e-mail she says:
As expected, most of these focus on retirement benefits.
MR. TORRES: I'm sorry.
MR. AMADEO: It's the first page, A021241.
MR. TORRES: Oh, I'm sorry. Objection to the form of the question. It's argumentative.
Go ahead and answer if you can.
BY MR. AMADEO:
Q That's what she said, isn't that right?
A I lost the question. Would you restate the question?
Q Could you read it back, please.
(The record was read.)
MR. TORRES: The document speaks for itself and it's argumentative.
But go ahead and answer if you can.
THE WITNESS: Still, what's the question?
BY MR. AMADEO:
Q Well, in fact, at this time did most of the questions regarding benefits, were they concerning

savings opportunities and our total benefits plan.
Q Was --
A Now, as I recall the request came later, but I don't recall a specific time 'cause this was a hurry up. This was a big project in a short period of time.
Q This project, was that in the fall of 2002?
A Yeah.
Q When Mr. Fussell commissioned, strike that. Did you have a conversation with Mr. Fussell about this project?
A Oh sure.
Q Okay. And what did he say about the project when you had your conversation?
A Look at all aspects of our benefit plans. Look at alternatives, figure out opportunities for redesign, put them on the table and let's have a discussion about them.
Q Were the opportunities for redesign, they were for the purposes of achieving cost savings, is that it?
A Yes. Yes, they were.
Q Before this project, had Mr. Fussell or anyone at Abbott asked you to prepare a package for Mr. White outlining cost saving alternatives?
MR. TORRES: Ever?
MR. AMADEO: Yes.

THE WITNESS: Ever? Every year we are challenged in some way to deliver our benefits more efficiently and virtually every year we put, presented some kind of package to Mr. White. But the year before that were we asked to do a cost savings projection on all of our benefits? No. But we have been asked to look at certain benefits. We are always in a redesign mode.
BY MR. AMADEO:
Q And you said that this was a hurry-up project, this particular project that Mr. Fussell approached you about in 2002.
Do you understand why it was a hurry-up project?
MR. TORRES: Objection, foundation. Calls for speculation.
THE WITNESS: I can answer?
MR. TORRES: Sorry. Go ahead and answer.
THE WITNESS: Yeah. This bigger project I'm recalling is really coming out following a board meeting following kind of a review of financials, where we stand, projections, that sort of thing. And they are looking at benefit cost and benefit costs rising fairly rapidly and they are creating some concern about, gee, we've got to figure out ways to slow this. So this came, this really

came out of that.
BY MR. AMADEO:
Q The board meeting that you're referring to is a meeting by the Abbott board of directors, is that right?
A Right.
Q Was there a discussion with Mr. Fussell that you had about this board meeting?
A Not about the board meeting itself as much as the challenge, the direction of the project.
Q Who told you about the board meeting?
A Fussell.
Q Did he explain to you that the, or did you ever hear that the board meeting had a revolt over the rising benefit costs?
A No. Not the term revolt over rising benefit costs, no.
Q What was your, what did Mr. Fussell tell you about that board meeting?
A He told me that there was discussion of the benefit cost. He told me that there was discussion around the annuity retirement plan.
We went through a hiatus a number of years where we did not have to make any contribution to the benefit plan and to the pension plan we had to make

contributions, and then the future cost profile of that plan was going up and there was discussion at the board meeting about other companies restructuring their benefits and had Abbott been looking at its benefits.
And so we were concerned were we on top of it, did we know where we were going to go, are our benefits correct and there's a need to slow down the trend in the cost increase.
Q Did Mr. Fussell talk to you in his discussions about the board meeting about the possibility of converting the annuity retirement plan to a cash balance plan?
MR. TORRES: I'm sorry. Can you read that back?
(The record was read.)
MR. TORRES: Thank you.
You can answer, Grice.
THE WITNESS: Not as direct as that. He, cash balance plan was mentioned by him as one of the alternatives to look at, but it wasn't that we want to lock in on the cash balance plan. I think, my recollection it was more in the context of some other firms are doing this. Is there any, you know, we need to say something about it.
But, no, it wasn't that they had a big discussion on cash balance plans, no. That didn't, that's not the way it came back to me.

A This slide basically depicts that at age 50 when you really are first eligible for retirement benefit the accrual jumps way up, no big surprise. And at age 55, no big surprise, change in formula.
Q And those jumps occur because of the enhancement to early retirement benefits at those ages, is that right?
A Yeah. It has to do with plan design, the way the plan is designed. When you're eligible, eligibility points for a particular benefit.
Q Was there a reaction to these jumps in the accruals at these ages?
A No. No, there wasn't other than, oh, okay, that's a way of depicting it. Everyone understood that this is just the portrayal of it. So, no, it didn't get any...
Q Can we go ahead and mark that.
(Williams Deposition Exhibit No. 18 was marked for identification.)
BY MR. AMADEO:
Q Mr. Williams, you've been handed exhibit 18 which is numbered X002643 through X002681 and for the record it's also Moreland exhibit 8.
Do you recall receiving an e-mail from Mary Moreland on February 5, 2003 with the attachment that is included in this e-mail that's titled Benefit Board of

Review, Abbott Laboratories, February 5, 2003?
A Yes, I do.
Q Did you attend a meeting on February 5, 2003 with Mary Moreland?
A Yes. Yes. This was the board of review meeting I referenced earlier.
Q And do you recall who else was present at that meeting?
A No, not specifically. Steve would have -- no, not specifically. If you gave me a list I could tell you, yeah, I remember them being there. But...
Q Do you recall whether at there Benefit Board of Review meeting there were decisions about changing either the retirement medical plan or the annuity retirement plan?
A This wasn't, I don't believe, the final final meeting. I think this was an update and a discussion and kind of a here's the path we are on. Continue on or not. I believe that was the nature of this meeting.
So with regard to decisions, there were indications or alternative agreement that we like this direction. But this was not final final, if I recall.
Q You're not --
A After I looked at the material I could tell you. It would come back to me.

Q You didn't sit on the benefit board of review, did you?
A No, I did not. I did not. And I did not attend every benefit board of review meeting. There were select meetings that I attended.
Q If you wouldn't mind going to X002656.
A Okay.
Q It's actually, there's a chart there and it states, number 1: Reduce benefit program costs in the short-and-long term. And then there's a bullet point:
Abbott wants to significantly reduce and better control retirement and other benefit costs.
Is that your understanding of one of Abbott's objectives during this time frame with regard to its benefits?
A As I read this today, I'm not sure I would have phrased it in this way. What I'm taking an exception to is "significantly reduce." Really the focus was to reduce future expense and lower the trend rate. So I would rephrase it today but, you know, we're picking at semantics of words.
Q That was a goal?
A Right.

MR. LIGUORI: What was a goal? I object to the question.
BY MR. AMADEO:
Q To lower the trend rates in terms of costs.
A Right.
Q Benefit costs.
A Right.
Q And reduce future expenses with regard to benefits.
A Correct. Correct.
Q If you skip to the next page, this is number 2 and it's titled, it's a chart titled Provide A Competitive Benefit Package. The first bullet point there says:
Abbott wants to provide an overall benefit package that is in the 50th percentile measured against a strong core of pharmaceutical companies.
Is that your understanding of where Abbott wanted to be in terms of its overall benefit package?
MR. TORRES: Objection, lacks foundation. It assumes facts.
But you can answer; I'm sorry.
THE WITNESS: And the answer is yes, 50th percentile is one way of stating it. We've also stated

competitive against average, yes.

BY MR. AMADEO:

Q Two pages after that for the record it's on X002659. Number 4: Do Not Subsidize Early Retirement.

Do you see that?

A Yes.

Q The first bullet point states:

Currently, Abbott's pension and retiree health benefits encourage early retirement through heavy employer subsidies.

The next says:

Future designs will not preclude early retirement but will minimize or eliminate the subsidies.

Is it your understanding that was another goal in terms of Abbott's benefits?

MR. TORRES: Objection, assumes facts.

Go ahead and answer if you can.

THE WITNESS: Yes.

MR. AMADEO: Go ahead and mark this.

(Williams Deposition Exhibit No. 19 was marked for identification.)

BY MR. AMADEO:

Q Mr. Williams, you've been handed exhibit 19. It

is a document entitled Finalize Design Recommendations and DB Transition Approaches.

Do you see that?

A Yes.

Q For the record, exhibit 19 is X012058 through X012105. It's also been marked previously as Wagner exhibit 7.

Do you recall attending a meeting on March 26, 2003 with Lois Lourie, Bill Preece and others in which this was presented, this document?

A Yes.

Q If you wouldn't mind skipping to X0102094, there is a couple of notes on that page. Again, these are notes that were taken by Mr. Wagner.

A By Wagner?

Q That's right.

A Okay.

Q The first note on that page is: Grice..., and I can't make out the rest of the next word, but the next word after that is o-b-j which appears to be the abbreviation for objective. Goes on to say: ...don't negative impact current employees. Then in quotations: Make it look good.

You see that?

A Yes, I do.

MR. TORRES: I'm going to object to form. O-b-j can mean object too, but if you want to assume objective for the purpose of your question.... Otherwise I object, it mischaracterizes the document.

MR. AMADEO: Let's not make any assumptions of that document. Let's go on to the last half of that line:

Don't negatively impact current employees - "make it look good.".

Let's focus on that.

Do you recall making a statement about not negatively impacting current employees and then making it look good?

A No, I don't recall making this statement, no.

Q Okay.

A No.

Q Go ahead and mark that, please.

(Williams Deposition Exhibit No. 20 was marked for identification.)

BY MR. AMADEO:

Q Mr. Williams, you have just been handed exhibit 20, which is numbered HEW001986 through HEW001988. It is an e-mail from Ms. Moreland to Chuck Fischer and others at Hewitt Associates dated April 17, 2003. It has also been previously marked as Moreland exhibit 15.

There is a reference in Ms. Moreland's e-mail to a meeting in her introduction in this e-mail. I'll just read it. It says:

I met yesterday with Miles White, Rick Gonzalez, Greg Linder, Bill Preece, Tom Wascoe, Grice Williams, Steve Fussell and Lois Lourie to discuss the Abbott retirement program alternatives.

Do you recall meeting with Ms. Moreland and the other individuals mentioned in this e-mail to discuss the Abbott retirement program alternatives on April 16, 2003?

A Yes.

Q Okay. And as far as you recall, were the individuals that she listed in attendance at that meeting?

A Yes.

Q If you go to the second page, the first bullet point, it says: He -- it's the second sentence of the first bullet point. It says: He..., and I believe it refers to Mr. White, Miles White?

A I'm sorry. Oh, I've got it. He really embraced...

Q He really embraced the concept that the plan was overly rich, and I think he would

EXHIBIT 3

(Filed under seal)

EXHIBIT 4

Mary Moreland

Mary Moreland
RFM/Retirement-The Americas
Fax: 847-771-7905
Lincolnshire/1OP-6S-8
Ext. 17249
01/27/2003 06:45 PM

To: Meghan McClimon/National/Hewitt Associates@Hewitt Associates NA
Chuck Steinhaus/Midwest/Hewitt Associates@Hewitt Associates NA
cc: David Haverick/Midwest/Hewitt Associates@Hewitt Associates NA
Richele Soja/Chicago/Hewitt Associates@Hewitt Associates NA
Steve Wagner/Minneapolis/Hewitt Associates@Hewitt Associates NA
Judy Whinfrey/Chicago/Hewitt Associates@Hewitt Associates NA
Chris Yurwitz/National/Hewitt Associates@Hewitt Associates NA
Subject: Abbott -- 1/27 Meeting Regarding Retiree Medical Plan Changes
Client: Abbott Laboratories (00472)
Line of Business: RFM
Confidential: No
Record Type: Correspondences

Mental Note: Consulting in tandem with TP is painful!

I met yesterday with Steve Fussell, Lois Lourie, Lesli Marasco, and Grice Williams from Abbott and Tom Kuhlman and Dave Osterndorf from TP to discuss the most recent retiree medical design project. Lois presented this material as well as two alternatives built from these options.

0127Abbott Retiree Health Care Alternatives.‹

Option 1-- Modifications to Current Structure
1. Change eligibility to 55/10; grandfather current ees age 45 and older; increase spousal contributions by 20% of total cost
2c. Eliminate coverage for new hires
3a. For pre-65 retirees, offer only one PPO plan
4b. For post-65 retirees, offer a drug-only plus a Medicare Supplement plan

Option 2 -- Fundamental Structural Changes
1. Change eligibility to 55/10; grandfather current ees age 45 and older; increase spousal contributions by 20% of total cost
2. For employees under age 45, create a flat-dollar benefit that accrues beginning at age 45; apply interest to the flat dollar benefit so that it "feels" like an account

Summary of Our Discussion
Steve repeatedly stressed the need for a **FUNDAMENTALLY DIFFERENT SET POINT** for the cost of the benefit programs. We need to make sure that we convey this to the working team for the retirement program redesign too.

Based on our discussions, the group recommended Option 2.

Our discussion included:

- Steve: Do you realize that we're within five years of socialized medicine in this country?

Mary Moreland

- Steve: Don't try to replicate what we have now. Anticipate the future. For example, we'll have a medicare prescription drug benefit by July and we don't want to set credits for this flat-dollar benefit without taking that into account.
- Steve: Why can't we find a decent funding vehicle for the flat dollar account?
- Steve and Lois had quite an exchange about how one would access care under the account-based plan scenario. Lois wanted to continue to self-insure. Steve was ADAMANT that they get out of the insurance business. They would provide the dollars and arrange for a plan through an insurance company. Dave Osterndorf stressed that this would be less efficient. Steve stressed that he just didn't care.
- Steve's goal is to be at the 25th percentile for BI (when compared to other pharmas).
- Steve very much wants us to be able to show the impact of changes in plan "features" on the BI results. Can we do this with BI modeler?
- The changes need to be announced in the first quarter of 2003. That feels very soon given how much specificity there is around the design.

Why the Hurry?
The issue that we're grappling with is that Steve has committed to delivering $20 million in savings during Q1 of 2003. Some changes in another benefit program will deliver $9.2 million. He was counting on the changes in the postretirement medical plan to deliver the other $10.8 million. But in order to book those savings in Q1, they need to be communicated during Q1.

Steve was clearly not inclined to announce the changes to the postretirement medical program in Q1 and then later in the year announce changes to the pension plan, 401(k), etc. So his preference was to try to avoid the announcements if at all possible. As we talked, we concluded that since the change in the eligibility saves $10.5 million, his savings goal could be achieved (almost) by just the change in the other benefit program plus this one change in the eligibility for postretirement medical. That buys some time to look at the changes to the retirement program (DB, DC, and retiree health) together and announce them together.

So they will ***announce that eligibility for the postretirement medical plan is changing from 50/10 to 55/10 for all employees not age 45 on 12/31/2003 in the first quarter. They will also likely say that "further changes to the programs are being considered."***

Next Steps
Grice will convene a meeting of the Benefit Board of Review for early February. At that meeting, we will present the change in eligibility with age 45+ grandfathered as a "done deal." We will also want to present the other alternatives and the impact on costs for 2003 - 2007. Steve wants the meeting to be more a "status update" than a session to decide on specific alternatives.

Here are the alternatives we need to focus on:

1. Change eligibility to 55/10; grandfather age 45+; eliminate coverage for new hires (have this one for 2003 and 2004 but need the later years) *Need to make sure that we can support the $10.5 million that we promised in December for this one because Tebbetts will want to book 25% of that in Q1 of 2003. Were we conservative? Could we make that number more like $10.8 million to achieve Steve's goal?*

2. #1 above plus increase spousal contributions by 20% of total cost (have this one for 2003 and 2004 but need the later years)

3. #1 above but increase spousal contributions by 20% for all actives (grandfathered and not grandfathered)

4. #1 above but increase spousal contributions by 20% for all actives and non-grandfathered retirees (post-87 retirees)

5. When looking at 1-4, make sure that we have enough information that we can come back and change to a post-65 drug only plan and get the cost impact for that as well

6. Fixed dollar benefit (this one needs more fleshing out but assume for now that it's a $6,000 per year benefit that begins accumulating at age 45; assume that allocations earn 5% interest and you can access the benefit at age 55/10 or later; no spousal benefit unless death occurs after retirement age)

Do we treat this as a curtailment? Dave Osterndorf said yesterday at the meeting that the answer is yes. I said that I wanted to dig into it more. In the Q&A's for FAS 106, Q #30, Example 5 seems to be on point. It looks like we create a negative plan amendment for the APBO reduction for those under age 45 but then we do recognize some UPSC. So it seems to me to be "sort of" a curtailment. CHUCK: Can you please dig into this further?

How do we value this plan? It seems that we would just start our accruals at age 45. That feels a little strange to me, but it seems consistent with FAS 106. CHUCK: Could you please do some digging into this as well?

Our Opportunity
Since this project seems to be dove-tailing into what we're doing on retirement, how can we capitalize on this and become "the" health care consultant at Abbott?

EXHIBIT 5

Hewitt

Benefit Board of Review

Abbott Laboratories

February 5, 2003

→ Labor costs

→ Healthy cost increases for strong plans

Moreland

Hewitt

Agenda

- Retiree Health Care Changes
  - — Recommendation and Alternatives
  - — Timing for Announcement
  - — FAS 106 Recognition
- Other Benefit Program Changes
  - — Current Costs
  - — Objectives and Guiding Principles
  - — Project Status

Sign. lower set point and trend over LRP

Hewitt

Retiree Health Care Changes—Recommendation

Category	Alternative	P & L Impact ($ millions) 2003	2004	Implications
Immediate Savings	Change eligibility from 50/10 to 55/10 for employees under age 45	$ (10.8)	$(12.0)	Baseline reduced; no impact on trend.

Decisions (in order of preference):

1. Delay announcement and combine with additional cost saving design changes in Q2 2003?
2. Announce eligibility change and the possibility of further changes in Q1 2003; book savings; announce additional changes later in 2003?
3. Announce eligibility change in Q1 2003 and book savings?

Hewitt

Retiree Health Care Changes—Additional Alternatives

Examples should be part of the ret design pro review integrated

		P & L Impact[1] ($ Millions)		
Category	Alternative	2003	2004	Implications
Tactical	Shift cost to retiree — Decrease spousal subsidy — Decrease retiree-only subsidy — One pre-65 plan with higher cost sharing — One post-65 plan with drug-only coverage	$(3) to $(38)+ depending upon application.	$(3) to $(42)+ depending upon application.	Baseline reduced; no impact on trend.
Reconstruction	Account-based approach: Fixed amount per year of service (service credit from hire or a later age) in hypothetical account.	Up to $(25)	Up to $(25)	Baseline reduced; insulated from trend in the future.
	Eliminate coverage for employees under age 45.	$(29) plus one-time credit of $40	$(36)	Baseline reduced; insulated from trend in the future.

[1] P & L impact reflects only the changes summarized here. Changes on page 3 are additive. P & L impact does not reflect implementation costs of $100,000 to $300,000 for each alternative.

Hewitt

Other Benefit Program Changes

Impact of doubling contribs for current
rets + all actives → ($20m ?)

CPS → cultural more than attractor / retainer
Should it just be 5% or something else ?

fringe rate = 40%
(but most of OPEB costs are at corporate)

CPS - competitive ?
→ not for non-exempts - too rich
→ exempt - others have more on bonus,
so competitive

Hewitt

$ 246M = Δ from '01
15% is for new hires = $731M (3x ↑ in b ft costs)
base salaries = $1B more in salaries
w/ 6% ↑ in salaries, from '03 to '07

Abbott Domestic Fringe Benefits

TOTAL GROSS COST
($MM except per head cost)

Target savings = $50 - $80M / per year!

→ on first target the "overly rich" areas then see what we have

→ costs increase 4% / headcount

	ACTUAL 2001	LBE 2002	PLAN 2003	LRP 2004	LRP 2005	LRP 2006	LRP 2007
Pension (A)	$ 50.9	$ 68.4	$ 100.3	$ 173.3	$ 236.5	$ 252.7	$ 282.0
% Inc	-	34.4%	46.6%	72.8%	36.5%	6.8%	11.6%
OPEB	92.4	121.6	163.6	178.0	191.1	207.1	226.1
% Inc	-	31.6%	34.5%	8.8%	7.4%	8.4%	9.2%
Profit Sharing	135.0	122.1	140.7	156.9	163.1	169.5	176.1
% Inc	-	-9.6%	15.2%	11.5%	4.0%	3.9%	3.9%
Medical (A)	170.8	196.6	226.7	256.2	287.0	318.5	350.4
% Inc	-	15.1%	15.3%	13.0%	12.0%	11.0%	10.0%
Stock Retirement	89.1	112.7	122.0	125.7	129.5	133.4	137.4
% Inc	-	26.5%	8.3%	3.0%	3.0%	3.0%	3.0%
Payroll Taxes	177.5	196.5	218.6	231.8	245.7	260.4	276.0
% Inc	-	10.7%	11.2%	6.0%	6.0%	6.0%	6.0%
All Other Benefits (B)	78.8	59.1	67.9	70.9	74.5	78.2	82.1
% Inc	-	-25.0%	14.9%	4.4%	5.1%	5.0%	5.0%
Total	$ 794.5	$ 877.0	$ 1,039.8	$ 1,192.8	$ 1,327.4	$ 1,419.8	$ 1,530.1
Total Cost/Headcount	$ 21,385	$ 22,427	$ 26,442	$ 30,333	$ 33,755	$ 36,105	$ 38,910
Cost/Headcount % Increase	-	4.9%	17.9%	14.7%	11.3%	7.0%	7.8%

Footnotes:
(A) Includes $13.0MM reduction for Tap Funding in '03; excluding the one time TAP funding, year-to-year Cost/Headcount increases 23.3% (vs. 21.9%).
'02 Medical includes provider refunds of $8.1MM for prior year errors; excluding the refunds, the year-to-year Cost/Headcount Increases 5.8% (vs. 4.9%).
(B) Primarily Dental, Workers Compensation, EDP, Life, Vacation, Payroll Accrual & Tuition Reimbursement.

Key Assumptions:
1) Assumes constant head count of 39,324 and merit increases of 3% from '04 through '07 LRP.
2) ARP/OPEB per Hewitt, adjusted for -9% vs. -15% 2002 asset return and effect of January 2003 $150MM contribution; plus $7.4MM per year for Knoll pension and $0.5MM per year for Ashland Union pension through '07 LRP.
3) CPS payout at 5% of pay in '03 Plan and 6% through '07 LRP; 4% year to year increases in '05 through '07LRP reflect the 3% merit increase assumption.
4) Medical growth per head at 13% in '04, 12% in '05, 11% in '06, and 10% in '07 (Hewitt projects 14% per year through the '07 LRP).
5) SRP at 5% of pay through '07 LRP; 3% year to year increases in '04 through '07 LRP reflect the 3% merit increase assumption.
6) Payroll Taxes consistent with merit increase of 3%; plus additional tax due to higher FICA ceiling & other comp. increases (promo and equity adjustments).

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HEW002028

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Current Benefit Program Costs in LRP[1]

look at active medical along with the rest

Miles wants a quality plan as cheap as he can get it

→ Miles doesn't want to be below the market

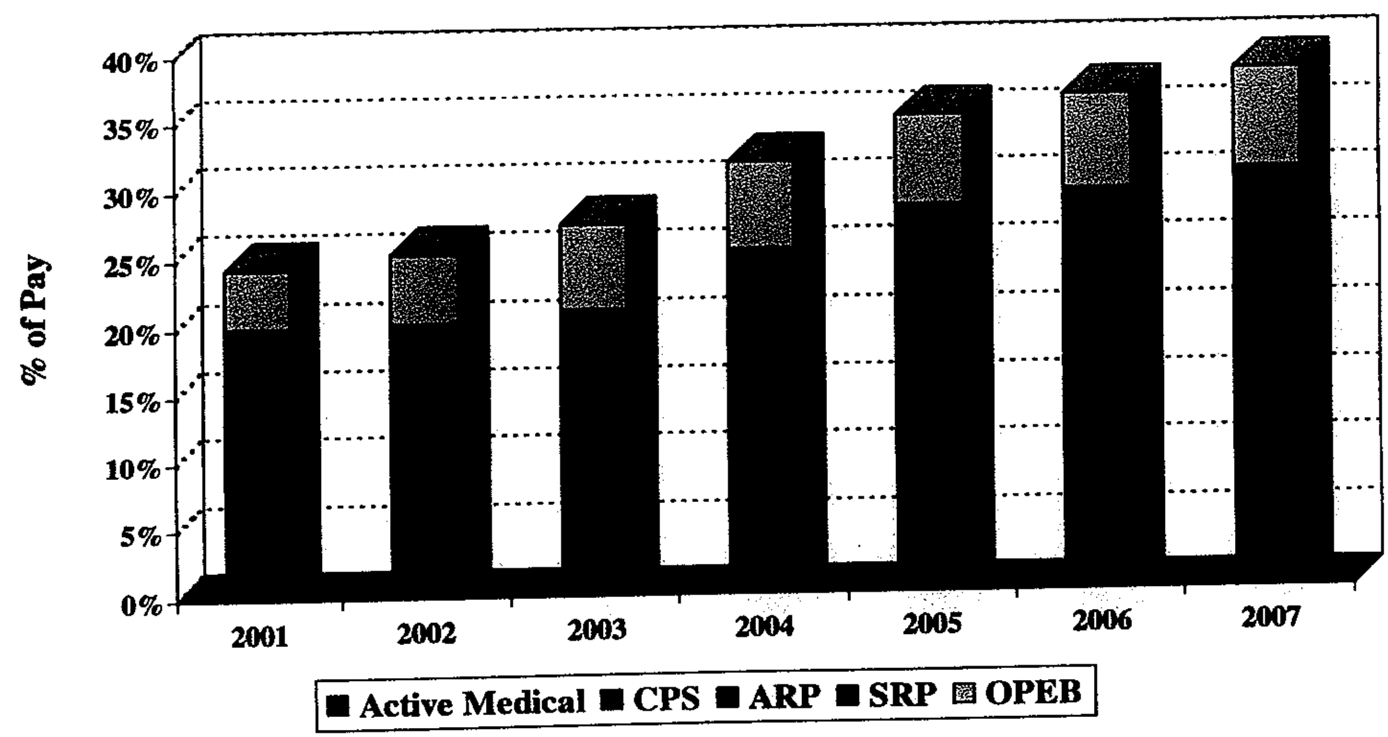
Shoot at the moving target and for the 50th %ile

	2001	2002	2003	2004	2005	2006	2007
Active Medical	7.7%	8.0%	8.4%	9.2%	10.0%	10.8%	11.5%
Cash Profit Sharing	6.1%	5.0%	4.7%	5.6%	5.7%	5.7%	5.7%
ARP	2.3%	2.8%	3.7%	6.2%	8.3%	8.6%	9.3%
SRP	4.0%	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%
OPEB	4.2%	5.0%	6.1%	6.4%	6.7%	7.0%	7.4%
Total	24.3%	25.4%	27.4%	31.9%	35.2%	36.6%	38.4%

Call it 5% and get what savings?

[1] Cost as a percentage of pay. Based on December LRP numbers.

Current Benefit Program Costs in LRP



[1] Cost as a percentage of pay. Based on December LRP numbers.

Benefit Program Objectives and Guiding Principles

- We know cost savings are critical. Is there a savings amount we should target?
  - In total or by program?
  - Over what time frame?
  - P & L only or cash too?
- Are there any benefit programs that cannot be touched?
- Are we willing to look at managing total human resource costs instead of just benefits?

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Benefit Program Objectives and Guiding Principles

- Based on Abbott's "Retirement Work Team" input
- Joint conference with Hewitt on January 30, 2003
- Will be used to evaluate current retirement programs and potential alternatives

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Categories of Objectives and Guiding Principles

- Cost
- Competitive stance
- Structure
- Impact on employees
- Alignment with HR objectives
- Alignment with business objectives

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#1: Reduce Benefit Program Costs in the Short- and Long-Term

- Abbott wants to significantly reduce and better control retirement and other benefit costs.
- Long-term costs can be reduced by altering program design for future new hires.
- To affect short-term costs, current employees must be impacted.
- All benefit programs are subject to review.
- Make cuts in retirement plans before CPS.

HEW002034

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#2: Provide a Competitive Benefit Package

- Abbott wants to provide an overall benefit package that is in the 50th percentile, measured against a strong core of pharmaceutical companies. ?? → high-performing group for exec comp → Peter
- Some benefit programs will be above and below competitor rankings to achieve the overall ranking.

→ 33rd percentile for pharma

HEW002035

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#3: Include Both a Guaranteed Pension and a Savings Vehicle

- Abbott's retirement design will include both
  - A guaranteed, defined benefit program (funded by the company with no employee investment discretion); and
  - An employee-savings vehicle (with employee investment and autonomy).
- Neither program will be based on company performance?
- However, Abbott's performance will be reflected in cash profit sharing.

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#4: Do Not Subsidize Early Retirement

- Currently, Abbott's pension and retiree health benefits encourage early retirement through heavy employer subsidies.
- Future designs will not preclude early retirement but will minimize or eliminate the subsidies.

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probably not

#5: Slightly Favor Portability Over Security (???)

- If it is not a cost issue, retirement benefits should be more portable (meaning vested employees can take the value of their benefits with them when they terminated or retire).
- Portability has several advantages
  - — Popular with employees;
  - — Reduces administration and PBGC premiums; and
  - — Eliminates the need for future COLA increases.

HEW002038

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#6: Give Employees More Responsibility for Their Retirement

- The company would like to be somewhat less paternalistic and increase employees' involvement in planning for their future.
- To facilitate this, Abbott will provide education, technology, and internet access.
- ? Employees will assume greater risk for investment results.

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#7: Maximize Understanding and Perceived Value

- Abbott's current pension formula is complex and difficult for employees to understand.
- Any new design should be easier for employees to understand and appreciate, which will in turn improve Abbott's ability to attract and retain talent.

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#8: Protect Employees Who Are Near Retirement

- An earlier objective cited the need to reduce retirement costs, in both the short- and long-term..
- Transition to the new program should mitigate the impact on older, longer service employees nearing retirement.
- This could involve giving these employees a choice of the current or new design.

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#9: Enhance Attraction of New Employees

- Current pension plan is primarily a retention (as opposed to attraction) vehicle.
- The plan provides little value to young, short service employees.
- The new design should provide greater value to new hires, including the "mid-career" talent necessary for the company to achieve business goals.

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#10: Reflect Future Recruiting Realities and Demographic Trends

- Future employees will change jobs (and careers) more frequently.
- Women (and some men) will enter and re-enter the workforce periodically to accommodate child-rearing responsibilities.
- Older employees may want to "phase into" retirement.
- Do not discourage post-retirement employment affiliation with Abbott. → rehires?
- Future design should reflect these realities.

HEW002043

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#11: Make Decisions for the Long Term. Be Bold!!

- While it is difficult to define "long term" in today's rapidly changing business environment, retirement changes should serve the company for 8-10 years.
- It is important that Abbott not "chip away" at programs annually, thereby negatively impacting employee relations and perception of the program.

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Appendix

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Current Retirement Program—ARP

- Traditional Final Average Pay benefit equal to the greater of
  - 1.10% x FAP5 x service (≤35)
  - 1.65% x FAP5 x service (≤ 20) + 1.50% x FAP5 x service (> 20 but ≤ 35 years) - 0.005% x lesser of (covered compensation, FAP3) x service (≤35)
- Subsidized early retirement is available at age 50 with 10 years of service.
  - Greater subsidies are available at age 55 if 94 age + service points would have been reached prior to attaining age 65.
- Terminated vested participants are eligible for early retirement but do not receive subsidized benefits.

Current Retirement Program—ARP

- The value of the subsidy is significant.

% of Age-65 Benefit Payable

Retirement Age	Retiring from ABT[1]	Terminated Vested
50	75%	29%
55	93%	42%
62	100%	75%

[1] Assuming 20 years of service.

- Benefits are paid as an annuity unless the value of the lump sum is $25,000 or less.
- Participants must pay (through a reduced benefit at retirement) for a spouse to receive a benefit if the participant dies prior to retirement.

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Current Retirement Program—SRP

- 401(k) plan with matching contributions.
- Participant contributes 2%; Abbott contributes 5%.
- 86% of employees contribute.
  - — Plans changes effective January 1, 2002 appear to have had slight impact on overall participation levels.
- Average contribution rate is 8.7% of pay.
  - — 13% of participants contribute 2% of pay.
  - — 32% of employees contribute 5% or less.
- 70% of those contributing invest in 3 or fewer stocks/funds.
  - — 78% of total fund is invested in Abbott stock.

HEW002048

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Current Retirement Program—Medical Coverage

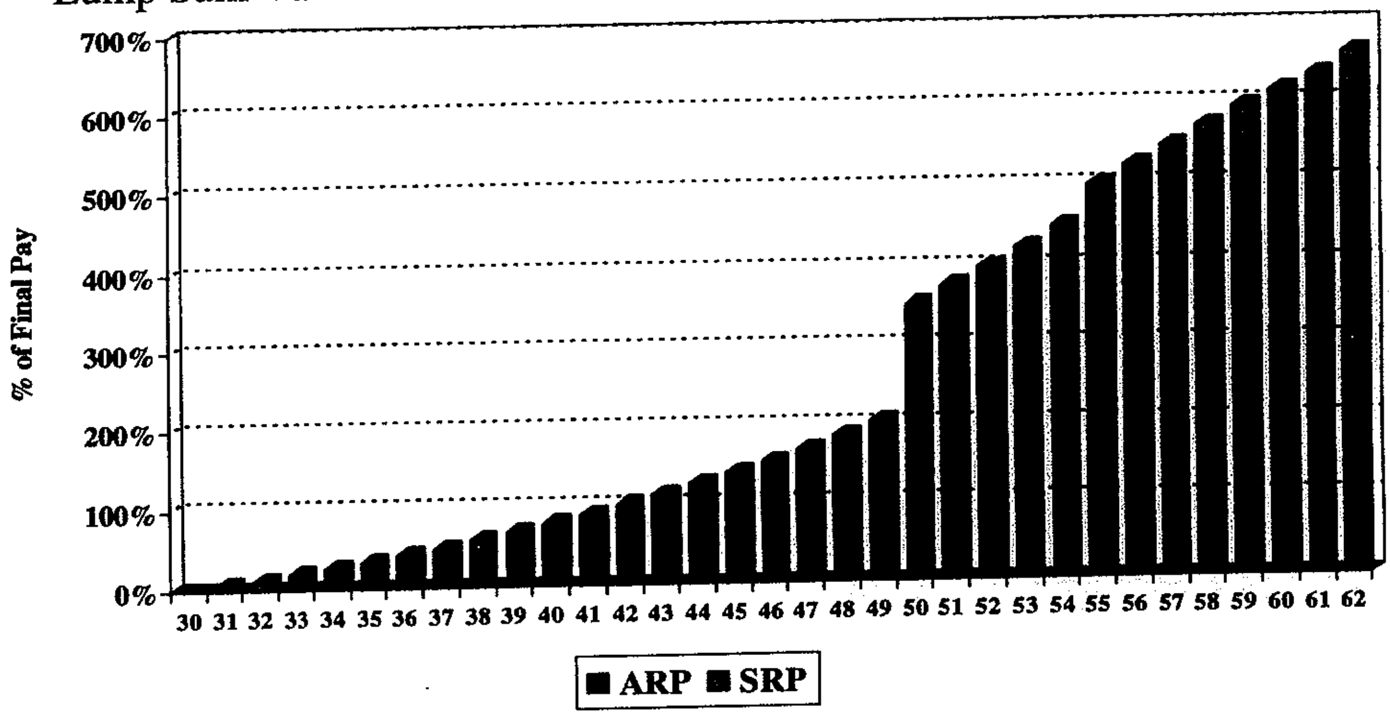
- Available at age 50 with 10 years of service (consistent with pension).
- Employees under age 50 as of December 31, 2002 will pay contributions based upon their current age.

Age	Contribution as % of Total Cost
50-54	30%
55-61	20%
62+	10%

- All current retirees and actives over age 50 will pay the age 62+ rate.

Benefits Provided—Accrual of Benefits

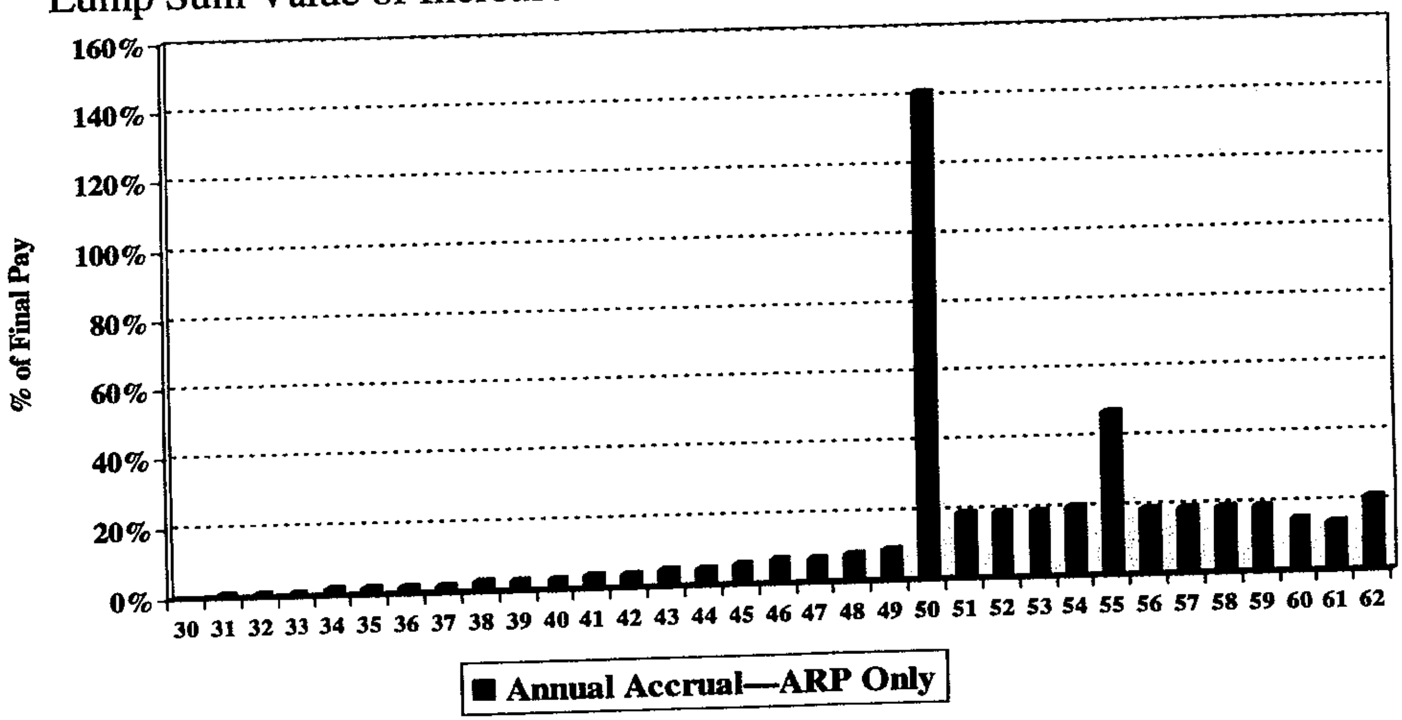
Lump Sum Value of Accrued Benefit



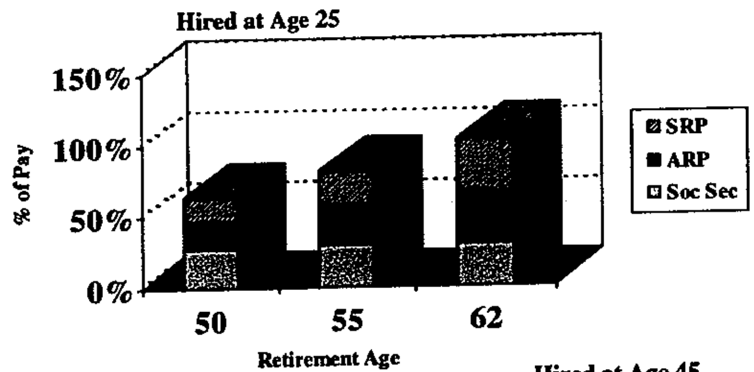
Assumes employee hired at $50,000 with pay increases of 3% per year and SRP earnings of 7% per year.

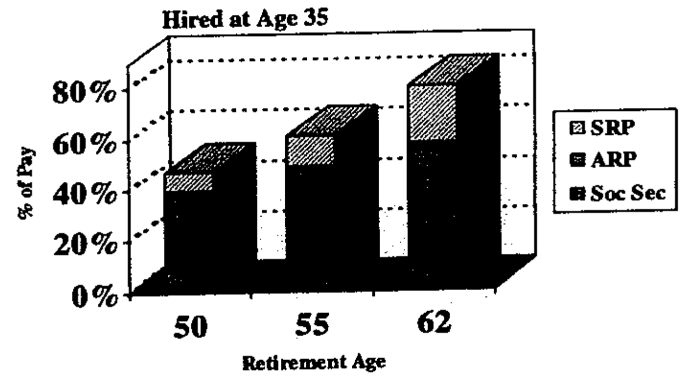
Benefits Provided—Accrual of Benefits

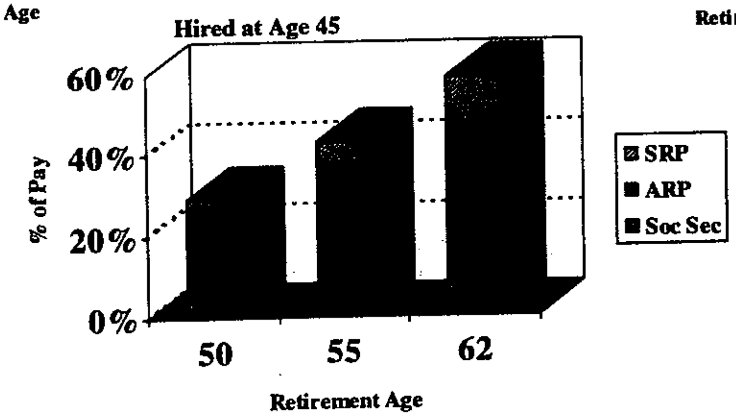
Lump Sum Value of Increase in Accrued Benefit



Benefits Provided—
Pay Replacement Percentage at Retirement



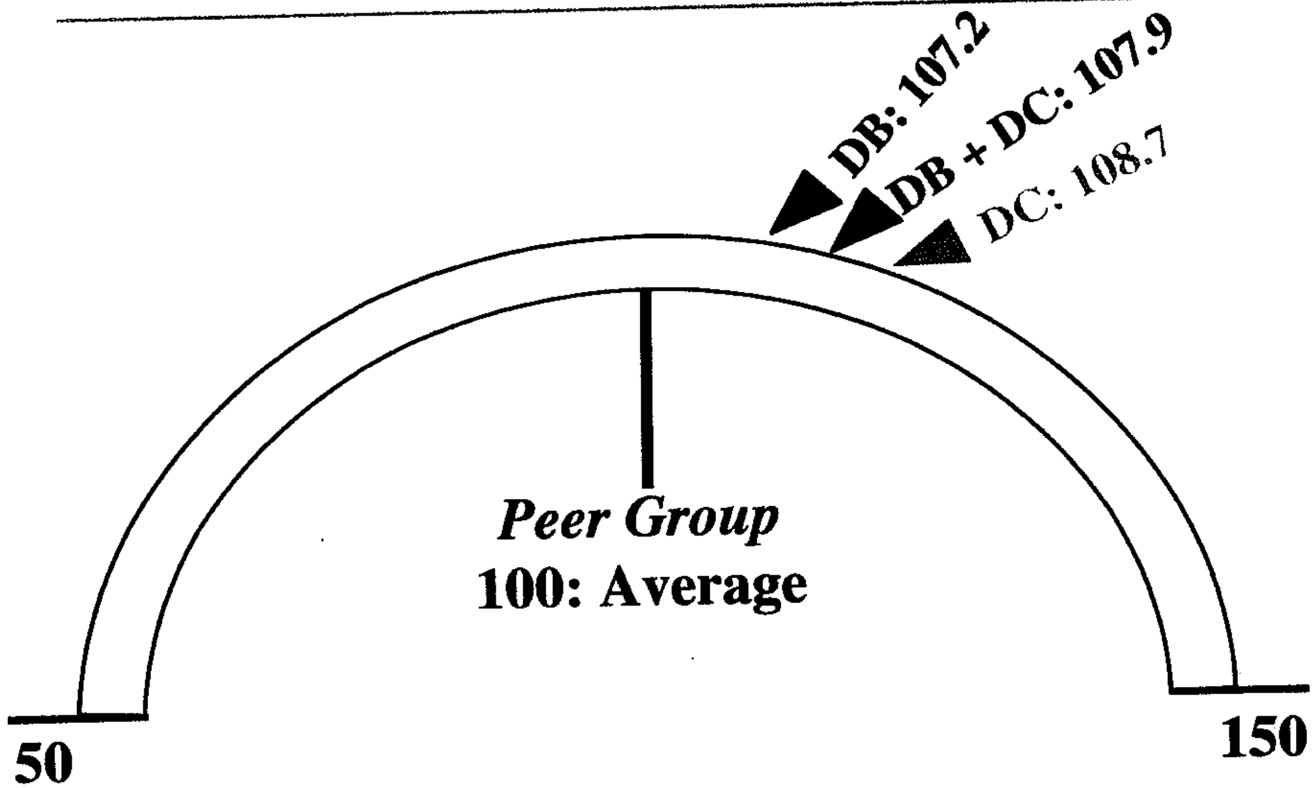




Assumes pay increases of 3% per year and SRP earnings of 7% per year.

HEW002052

Competitive Position— Benefit Index® Results for Health Care Group



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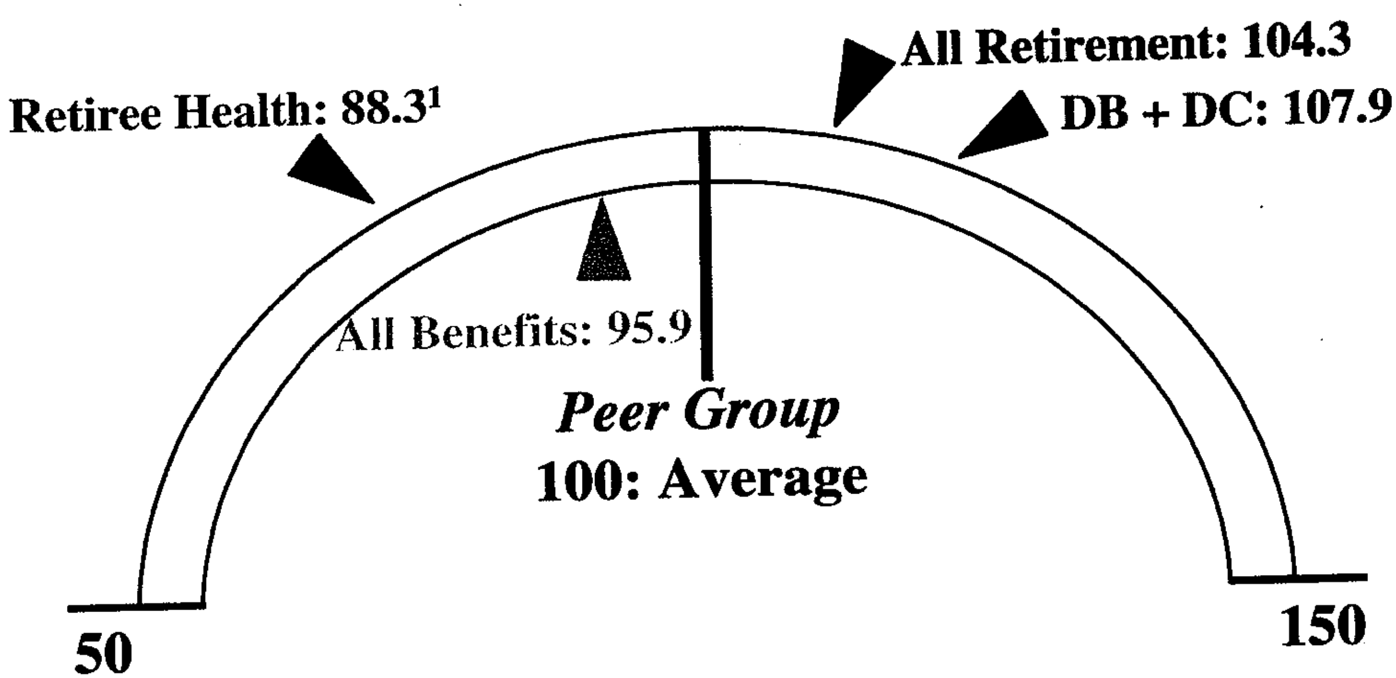
Competitive Position—Benefit Index® Results for Health Care Group



[1] Reflects changes effective for 2003.

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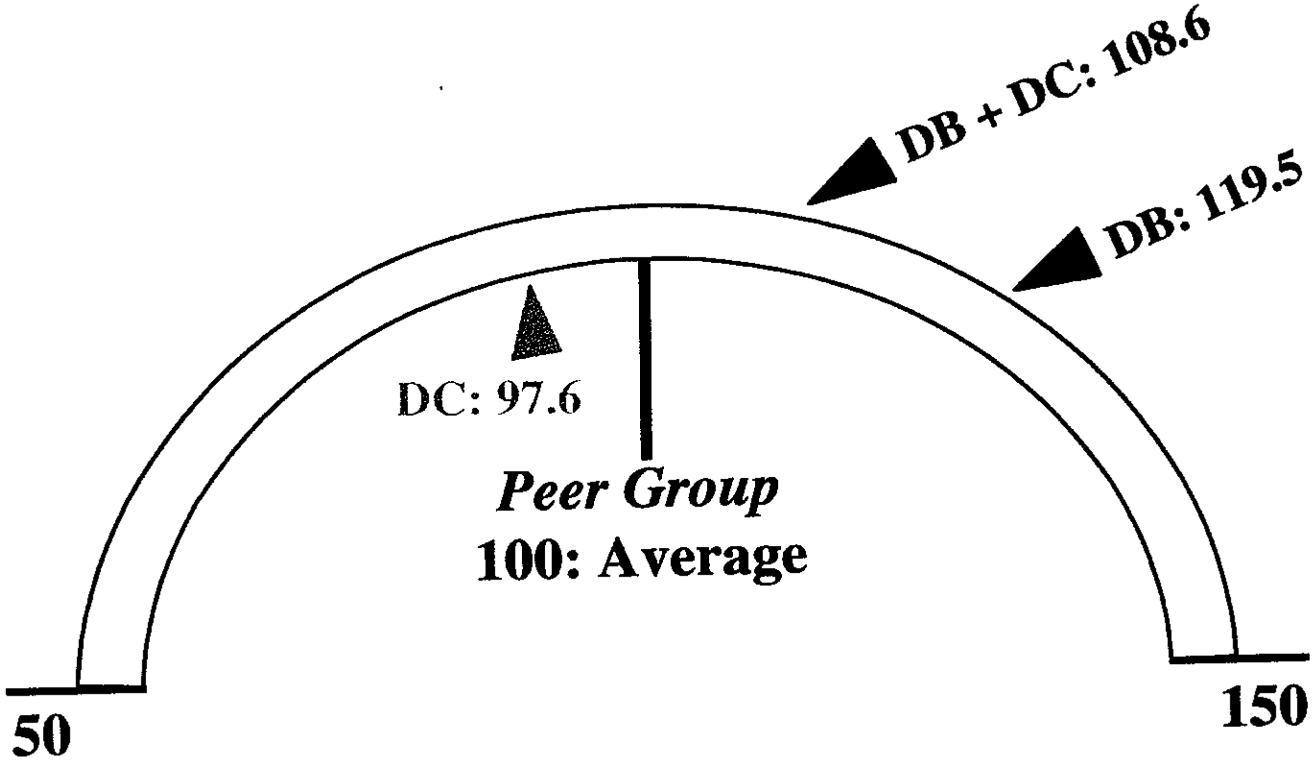
Competitive Position—
Benefit Index® Results for General Industry Group



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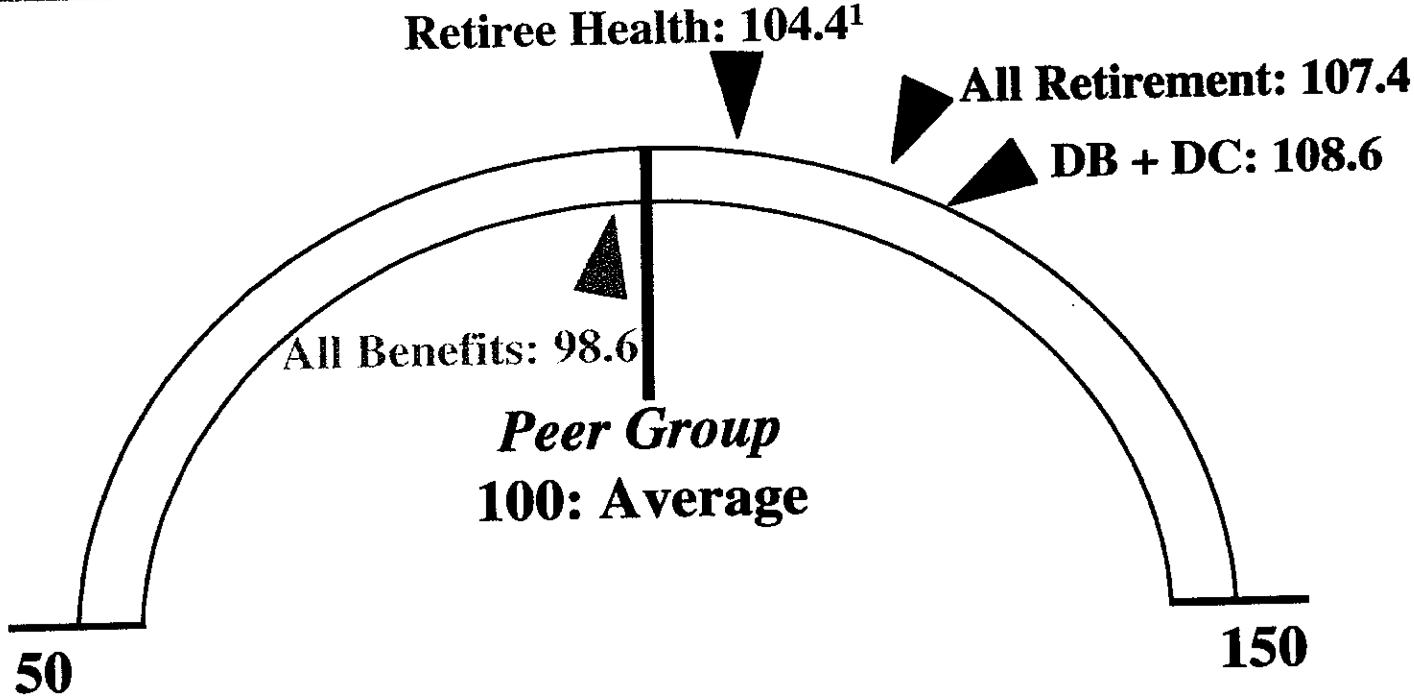
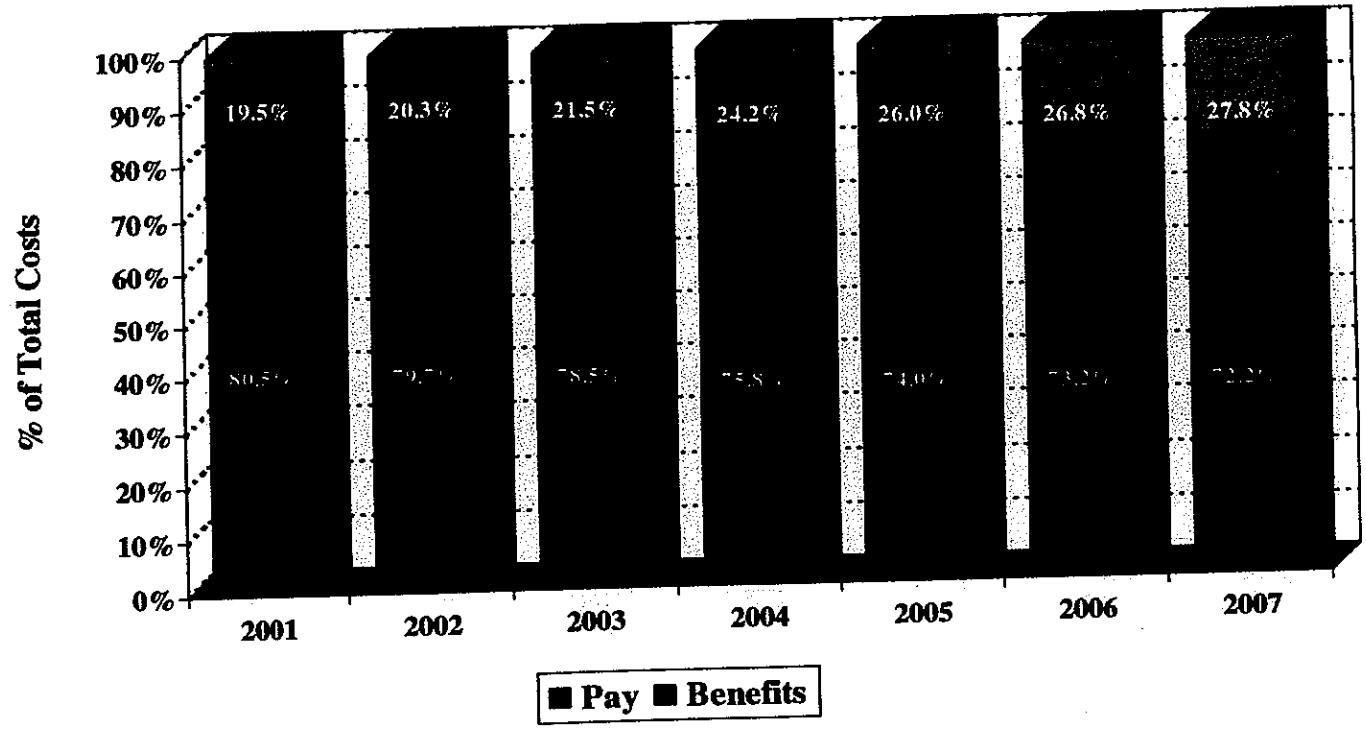
Competitive Position—
Benefit Index® Results for General Industry Group



[1] Reflects changes effective for 2003.

Allocation of Pay and Benefit Program Costs Based on LRP[1]



[1] Benefit program costs reflect active and retiree medical, ARP, SRP, and CPS only.

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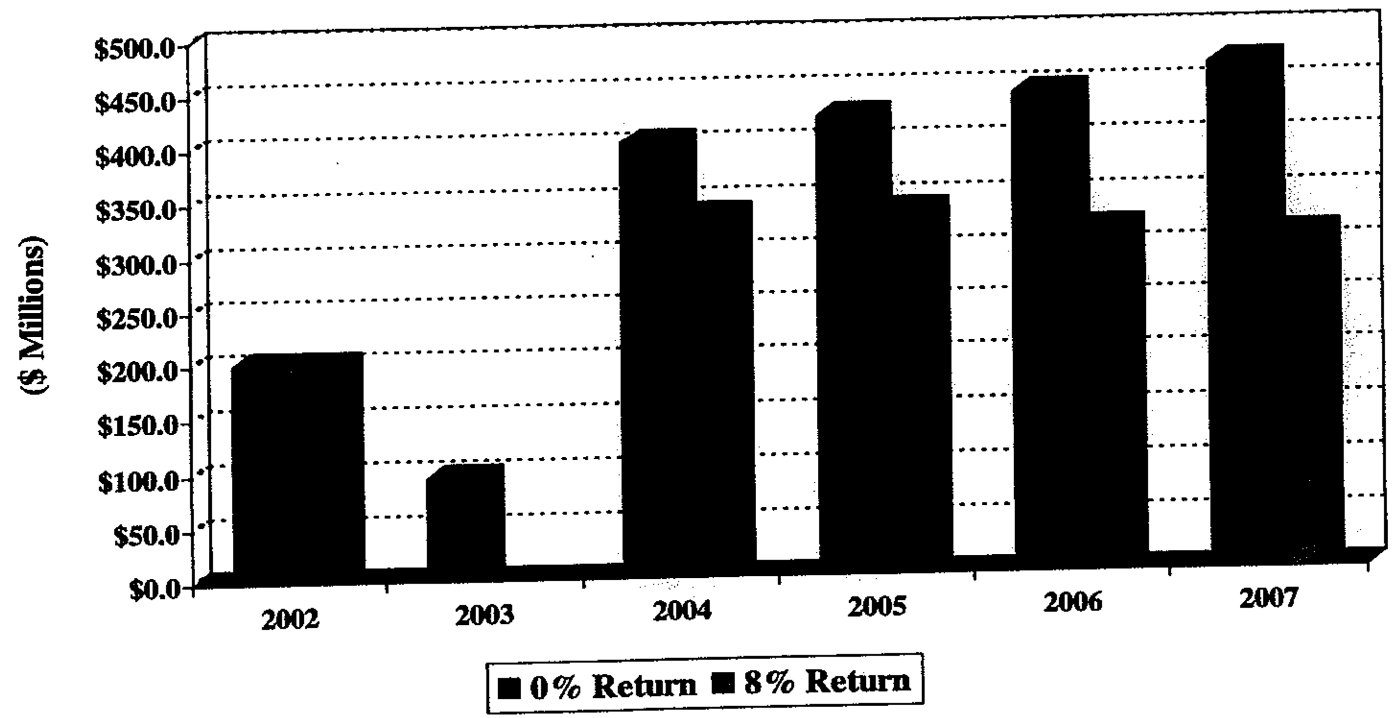
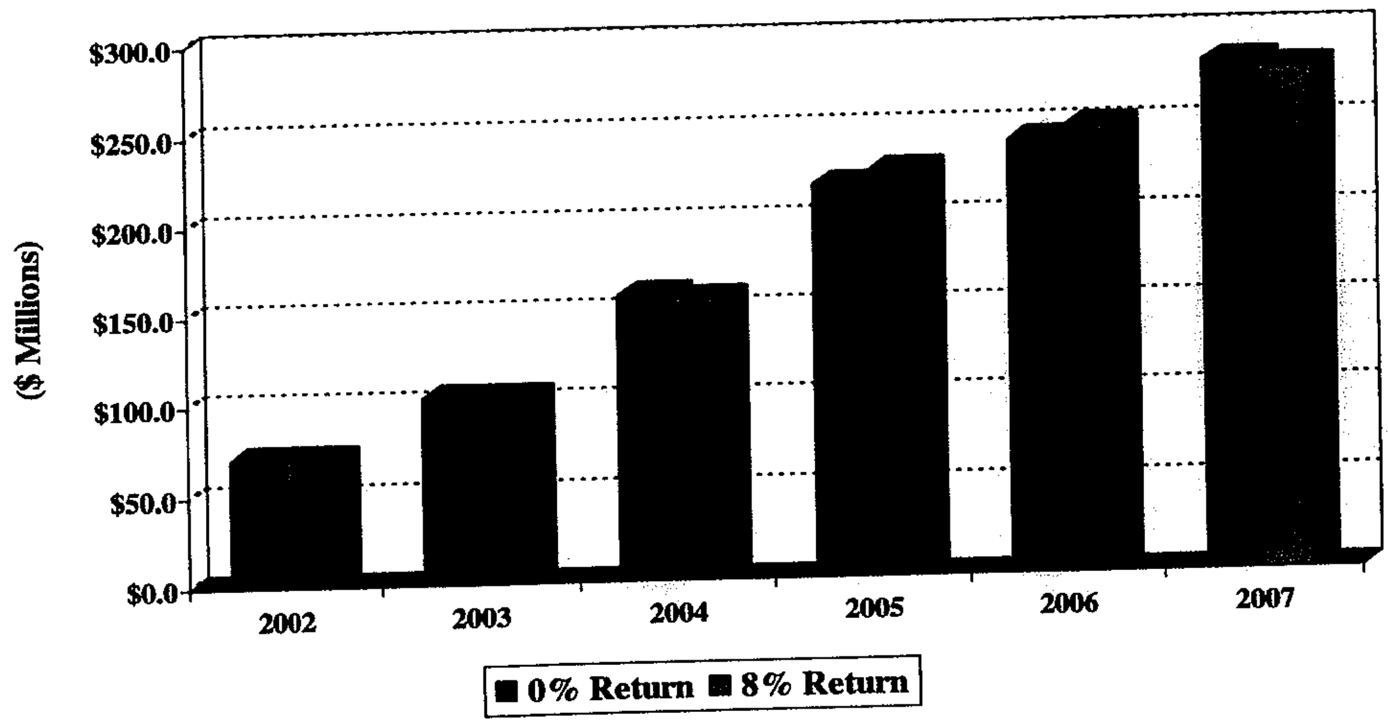
ARP Projected Cash Contributions



Contributions to maintain plan's 90% funded level based on actual 12/31/2002 asset value and a 4.96% treasury rate in all future years. Assumes funding relief remains in effect for all future years.

ARP Projected FAS 87 Expense



Based on actual 12/31/2002 asset values, assuming contributions are made to maintain the plan's 90% funded level and a 6.75% discount rate in all future years.

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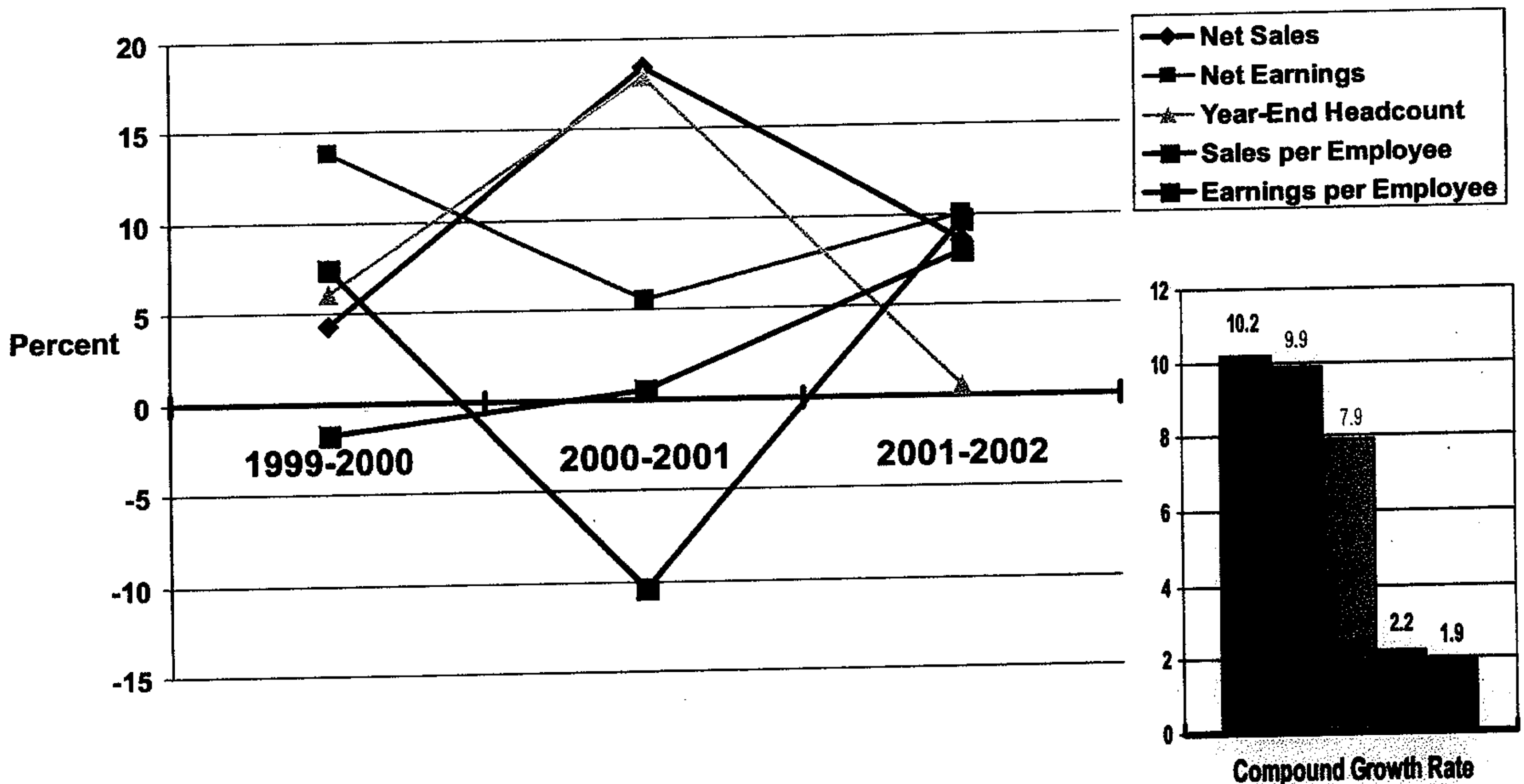
1999-2002 Productivity Growth Rate



1999-2002 Employee Productivity Measures

	Net Sales($MM)	Net Earnings($MM)	Year-End Headcount($MM)	Sales Per Employee($000)	Earnings Per Employee($000)
2002	17,685	3243	71,819	246.2	45.2
2001	16,285	2942	71,426	228.0	41.1
2000	13,746	2786	60,571	226.9	46.9
1999	13,178	2446	57,100	226.9	46.9
Compound Growth Rate	10.2%	9.9%	7.9%	2.2%	1.9%

Benefit Cost Review - Summary Progress Report

During the December Board meeting, Tom Freyman presented an update regarding pension funding. The essence of the update was that stock market declines and changing employee demographics will result in increases in Abbott's pension costs and funding patterns over the LRP. Given Abbott's strong cost flow and prudent pension fund management, the situation is manageable.

The attached summary provides a snapshot of the plan design and cost management alternatives we are considering to mitigate increasing costs. Since, in aggregate, costs for active and retiree healthcare exceed those attributable to our pension plan, two projections are attached for your reference – one for the pension plan and one for healthcare. Note that the alternatives are summarized in three categories:

- Immediate Savings
- Tactical Reductions - Relatively easy changes with little employee relations or competitive impact.
- Reconstruction - Major changes to plan designs, delivering significantly lower costs, with serious employee and competitive concerns.

Our project plan includes:

• Initial retiree medical recommendations	February '03
• Comprehensive benefits proposals	April '03
• Final design and implementation decisions	July '03

It is anticipated that certain elements (for example, retiree medical plan changes) will be effective by mid-year, with the remainder in late 2003/early 2004.